

## Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 IO-13 ISO-00 STRE-00 AGRE-00 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05

SS-15 STR-07 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02

OMB-01 DOE-15 /124 W

-----094989 281823Z /41

P 281756Z APR 78

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC PRIORITY 9889

INFO USMISSION GENEVA PRIORITY

ALL USCONS MEXICO POUCH

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USMTN

PASS STR ELECTRONICALLY

E.O. 11652: N/A

TAGS: ETRD, MTN, MX

SUBJECT: U.S.-MEXICO TRADE SUBGROUP MEETING: OVERVIEW  
OF MEXICAN TRADE POLICIES

REF: STATE 098477

1. SUMMARY: MEXICO IS CHANGING ITS SYSTEM OF LIMITING  
IMPORTS FROM ONE OF LICENSING TO ONE OF TARIFFS. ONLY A  
SMALL VALUE OF ITS IMPORTS ARE AFFECTED AS YET. SO FAR  
THE CHANGEOVER IS NOT LEADING TO LIBERALIZATION, ALTHOUGH  
SOME OFFICIALS HOPE THAT EVENTUALLY IT WILL. THAT ROAD  
WILL BE DIFFICULT, HOWEVER, AND WE SHOULD REMIND GOM  
OFFICIALS AS APPROPRIATE THAT THEIR FAILURE TO EXPORT  
MANUFACTURES IS BASICALLY DUE TO THEIR IMPORT POLICIES.  
END SUMMARY.

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2. SINCE FEBRUARY, 1977, A COMMISSION ON TARIFFS AND  
FOREIGN TRADE CONTROLS HAS BEEN STUDYING MEXICO'S IMPORT  
LICENSING SYSTEM TOWARD THE END OF DOING AWAY WITH THE  
BUREAUCRATICALLY CUMBERSOME PERMIT REQUIREMENT WHILE AT  
THE SAME TIME PROVIDING PROTECTION FOR MEXICAN PRODUCTS  
THROUGH HIGHER DUTIES (SEE MEXICO 966 AND 16346/1977).

THE COMMISSION IS COMPOSED OF REPRESENTATIVES OF THE SECRETARIATS OF COMMERCE, PATRIMONY AND INDUSTRIAL DEVELOPMENT, TREASURY, AND AGRICULTURE. TO DATE 2322 TARIFF CLASSIFICATIONS HAVE BEEN REMOVED FROM THE LICENSING SYSTEM AND THESE, ADDED TO THE 1230 WHICH DID NOT PREVIOUSLY NEED PERMITS, TOTAL 3552 CURRENTLY EXEMPT FROM THE IMPORT PERMIT REQUIREMENT. WHILE THESE CLASSIFICATIONS ACCOUNT FOR OVER 48 PERCENT OF THE 7339 NUMBERS IN THE MEXICAN TARIFF CODE, THEY AMOUNT TO ONLY 10 PERCENT (BY VALUE) OF MEXICO'S IMPORTS. THE PRODUCTS COVERED ARE LARGELY RAW MATERIALS, AGRICULTURAL GOODS AND CONSUMER ITEMS WITH LUXURY CONNOTATIONS. AS ITEMS ARE DECONTROLLED, TARIFFS ARE RAISED TO PROVIDE CONSIDERABLE PROTECTION FOR LOCAL MANUFACTURERS. MEXICO'S TARIFF SYSTEM IS SUPPOSED TO BE TOTALLY RESTRUCTURED BY 1982. ALTHOUGH OFFICIALS TALK ABOUT THE EVENTUAL LOWERING OF THE NEW TARIFFS TO ENCOURAGE GREATER SPECIALIZATION AND COMPETITIVENESS, NO SCHEDULE OF REDUCTIONS HAS YET BEEN FORMULATED AND LUIS BRAVO, DIRECTOR GENERAL FOR TARIFFS, HAS TOLD US THAT MEXICAN TARIFF REDUCTIONS WILL DEPEND ON THE GENEVA NEGOTIATIONS AND U.S. PROTECTIONIST MEASURES.

3. MEXICANS REFER TO THEIR CHANGEOVER FROM A SYSTEM OF IMPORT LIMITATION BASED ON LICENSES TO ONE BASED ON TARIFFS AS LIBERALIZATION. IT IS A STEP FORWARD AS FAR AS TRADE POLICY IS CONCERNED, BUT IT IS NOT LIBERALIZATION; THE LIMITED OFFICIAL USE

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TARIFFS ARE BEING SET VERY HIGH, SELDOM LESS THAN 50 PERCENT. FURTHERMORE, THE SYSTEM OF LICENSES WAS BECOMING A BUREAUCRATIC NIGHTMARE FOR AN INDUSTRIALIZING STATE AND HAD TO BE CHANGED IN ANY EVENT. NOR IS IT TRUE THAT MEXICO'S BASIC POLICY OF INDUSTRIALIZATION THROUGH HIGH PROTECTION, I.E. GUARANTEED HIGH RATE OF RETURN (TERMED IMPORT SUBSTITUTION), IS BEING CHANGED. WHAT IS BEING CHANGED IS THE PREVIOUS POLICY OF GIVING BLANKET PROTECTION TO ALL MEXICAN PRODUCED GOODS THROUGH REFUSAL TO GRANT LICENSES FOR COMPETITIVE GOODS. TARIFF PROTECTION FOR NEW INDUSTRY, ALTHOUGH IT WILL STILL BE HIGH (35 PERCENT MINIMUM), IS SUPPOSED TO BE AWARDED MORE SELECTIVELY THAN LICENSING PROTECTION WAS GIVEN PREVIOUSLY AND TO TAKE MORE INTO ACCOUNT MEXICO'S COMPARATIVE ADVANTAGES. THERE IS ALMOST NO PRESSURE IN THE COMMISSION TO LOWER PROTECTION, EXCEPT OCCASIONALLY BY PATRIMONY ON PRODUCTS PRODUCED BY THE PRIVATE SECTOR. HOWEVER PATRIMONY FAVORS HIGH PROTECTION, IF NOT COMPLETE MONOPOLY, FOR THE PUBLIC SECTOR FIRMS IT SUPERVISES. NOR DOES THE MINISTRY OF COMMERCE WEIGH IN EFFECTIVELY FOR LOWERED PROTECTION. ITS VOICE IN THE COMMISSION IS THAT OF THE UNDERSECRETARIAT FOR DOMESTIC TRADE WHICH CLOSELY REFLECTS THE POSITIONS OF

PRIVATE INDUSTRY. THE COMMISSION HAS SO FAR MADE THE EASY DECISIONS ON ITEMS NOT COMPETITIVE WITH DOMESTIC PRODUCTION AND EVEN HERE IT HAS JUSTIFIED HIGH TARIFFS BY CLAIMING THE ITEMS ARE LUXURIES.

4. ALL THIS IS NOT TO SAY THAT OFFICIALS IN THE FOREIGN TRADE SIDE OF COMMERCE, AS WELL AS SOME OTHER GOM OFFICIALS IN THE BUREAUCRACY, ARE UNAWARE OF THE CONSEQUENCES OF HIGH PROTECTION. SOME OF THEM INTEND THAT THE CHANGEOVER FROM QUOTAS TO DUTIES BE FOLLOWED EVENTUALLY BY TARIFF REDUCTIONS AND A GENUINE EXPORT-ORIENTED DEVELOPMENT POLICY. HOWEVER, WE BELIEVE THEY ARE UNDERESTIMATING THE DIFFICULTY OF THE TASK AHEAD OF THEM. BEING HIGHLY PROTECTED AT HOME, FEW MEXICAN FIRMS SHOW MUCH INTEREST IN EXPORTING. FURTHERMORE, THE CLAIM OF "SPECIAL AND DIFFERENTIAL TREATMENT" AS LIMITED OFFICIAL USE

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CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05  
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A DEVELOPING COUNTRY AND THE CONSEQUENT REJECTION OF THE APPLICABILITY OF THE PRINCIPLE OF RECIPROCITY TO MEXICAN TRADE RELATIONS, HAS HINDERED THE DEVELOPMENT OF A VESTED

INTEREST TOWARD FREER TRADE WITHIN BOTH GOVERNMENT AND PRIVATE INDUSTRY. THEN, TOO, THERE IS RELUCTANCE TO MAKE ANY ABRUPT CHANGES BECAUSE OF THE IMPACT ON EMPLOYMENT IN THE SHORT TERM, ESPECIALLY IN PUBLIC ENTERPRISE SECTORS, AND ON PRIVATE SECTOR CONFIDENCE. NEVERTHELESS, THE ANTICIPATION OF A CURRENT ACCOUNT SURPLUS FROM OIL REVENUES AFTER 1980 IS GIVING GOM OFFICIALS SOMETHING TO PONDER. THE HEAD OF THE AMERICAN CHAMBER WAS TOLD BY A COMMERCE OFFICIAL IN CHARGE OF THE IMPORT LICENSING SYSTEM THAT THE GOM DIDN'T WANT THE NEW DUTIES TO BE PROHIBITIVE AND THAT ADDITIONAL IMPORTS WILL BE NECESSARY TO SOAK UP DOMESTIC DEMAND. HE ALSO IMPLIED A WILLINGNESS ON THE PART OF GOM OFFICIALS TO EXAMINE DUTIES WHICH WERE CONSIDERED TO BE TOO HIGH.

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5. MEXICAN POLICIES HAVE CREATED A HIGH COST MANUFACTURING SECTOR, DUE TO HIGH COST INPUTS, WHICH IS GENERALLY UNABLE TO EXPORT. MEXICAN POLICY MAKERS PUBLICLY REFUSE TO ACCEPT THIS FACT (ALTHOUGH SOME GOM ECONOMISTS WILL DO SO PRIVATELY) AND, INSTEAD, BLAME MEXICO'S INABILITY TO EXPORT MANUFACTURES ON FOREIGN TRADE BARRIERS. WE SHOULD NOT ACCEPT THIS AND SHOULD REMIND GOM OFFICIALS, AS APPROPRIATE, THAT THEIR FAILURE TO EXPORT MANUFACTURES IS BASICALLY DUE TO THEIR IMPORT POLICIES. WE HAVE BEEN MAKING THIS POINT BY LIBERALLY DISTRIBUTING THROUGHOUT THE MINISTRIES OF COMMERCE AND PATRIMONY COPIES OF THE MILLER-BURSON ANALYSIS INCORPORATED IN THE MEMORANDUM OF NOV 4, 1977, FROM INR - ELY TO S/P - FEINBERG FOR S/P PAPER ON MEXICO. LUCEY

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Copy:** SINGLE  
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**Decaption Date:** 20 Mar 2014  
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